

City of New Baltimore, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of New Baltimore, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Baltimore, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of New Baltimore, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of New Baltimore, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2008 on our consideration of the City of New Baltimore, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the result of our audit.

Auditor's Report
City of New Baltimore, Michigan

The management's discussion and analysis, the budgetary comparison schedule and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Baltimore, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alan C. Young; Assoc.

November 12, 2008

City of New Baltimore, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of New Baltimore, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Total net assets increased \$466,520 as a result of this year's operations. Net assets of the governmental activities increased \$94,728 while business-type activities increased by \$371,792 for the year.
- The total cost of all the City's programs was \$13,317,050 for the year.
- The General Fund increased in fund balance by \$19,303 to \$1,671,606 at year end. This is attributable primarily to increased property tax revenue and charges for services. Strict control of expenditures allowed transfers of \$411,723 into the Public Improvement Fund.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of New Baltimore, Michigan

Management's Discussion and Analysis (Continued)

The City of New Baltimore as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 7,732,341	\$ 7,777,382	\$ 9,487,752	\$ 9,548,659	\$ 17,220,093	\$ 17,326,041
Noncurrent assets	<u>21,987,888</u>	<u>22,307,880</u>	<u>50,289,127</u>	<u>39,955,418</u>	<u>72,277,015</u>	<u>62,263,298</u>
Total assets	29,720,229	30,085,262	59,776,879	49,504,077	89,497,108	79,589,339
Liabilities						
Current liabilities	1,532,458	1,349,978	2,474,897	1,622,981	4,007,355	2,547,959
Long-term liabilities	<u>17,825,000</u>	<u>18,467,241</u>	<u>9,091,915</u>	<u>42,821</u>	<u>26,916,915</u>	<u>18,935,062</u>
Total liabilities	<u>19,357,458</u>	<u>19,817,219</u>	<u>11,566,812</u>	<u>1,665,802</u>	<u>30,924,270</u>	<u>21,483,021</u>
Net Assets						
Invested in capital assets -						
Net of related debt	3,662,888	3,557,880	41,813,860	39,666,794	45,476,748	43,224,674
Restricted	2,340,288	2,498,357	-	2,328,942	2,340,288	4,827,299
Unrestricted	<u>4,359,595</u>	<u>4,211,806</u>	<u>6,396,207</u>	<u>5,842,539</u>	<u>10,755,802</u>	<u>10,054,345</u>
Total net assets	<u>\$ 10,362,771</u>	<u>\$ 10,268,043</u>	<u>\$ 48,210,067</u>	<u>\$ 47,838,275</u>	<u>\$ 58,572,838</u>	<u>\$ 58,106,318</u>

The City's combined net assets totaled \$58,572,838, an increase of 8.0 percent from the prior year. As we look at the governmental activities separately from the business-type activities, we can see that the current level of unrestricted net assets for our governmental activities is approximately \$4.4 million. The unrestricted net assets of the business-type activities increased by \$553,668 during 2008.

City of New Baltimore, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 1,203,980	\$ 1,152,491	\$ 3,987,377	\$ 2,814,553	\$ 5,191,357	\$ 3,967,044
Operating grants and contributions	743,533	628,826	-	-	743,533	628,826
Capital grants and contributions	-	46,404	210,615	518,541	210,615	564,945
General revenue:						
Property taxes	6,263,839	5,907,560	-	-	6,263,839	5,907,560
State-shared revenue	608,816	856,874	-	-	608,816	856,874
Unrestricted investment earnings	427,780	436,286	319,813	500,943	747,593	937,229
Miscellaneous revenue	12,650	14,596	5,167	1,900	17,817	16,496
Total revenue	9,260,598	9,043,037	4,522,972	3,835,937	13,783,570	12,878,974
Program Expenses						
General government	1,351,022	1,363,582	-	-	1,351,022	1,363,582
Public safety	3,019,286	2,912,127	-	-	3,019,286	2,912,127
Public works	1,001,483	764,252	-	-	1,001,483	764,252
Highways and streets	1,680,598	1,379,274	-	-	1,680,598	1,379,274
Community and economic development	222,166	229,468	-	-	222,166	229,468
Recreation and culture	1,157,657	1,091,951	-	-	1,157,657	1,091,951
Interest on long-term debt	783,308	851,152	-	-	783,308	851,152
Water	-	-	2,038,320	1,516,456	2,038,320	1,516,456
Sewer	-	-	1,890,579	1,470,063	1,890,579	1,470,063
Storm water	-	-	172,631	453,835	172,631	453,835
Total program expenses	9,215,520	8,591,806	4,101,530	3,440,354	13,317,050	12,032,160
Transfers In (Out)	49,650	147,643	(49,650)	(147,643)	-	-
Change in Net Assets	\$ 94,728	\$ 598,874	\$ 371,792	\$ 247,940	\$ 466,520	\$ 846,814

Governmental Activities

The City's total governmental revenues decreased from \$9,276,360 in 2007 to \$9,260,598 in 2008 mainly due to adjustments in rubbish collections and other charges for services.

The City's total governmental expenses increased by \$522,030 mainly as a result of increased public safety and department of public service costs.

During 2008, the City closely monitored its spending in all areas, including hiring and capital outlay.

City of New Baltimore, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water, Sewer, and Storm Water Funds. Of the City's charges for services revenue, the majority is generated from charges passed on to residents which totaled approximately \$4.0 million in 2008. The charges for services are offset by water, sewer and storm water expenses of \$4.1 million, or 30.8 percent of the City's total expenses. After capital contributions and interest earnings, the business activities had a net change in net assets of \$371,792.

The City of New Baltimore's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City of New Baltimore as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond projects. The City's only major fund for 2008 is the General Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenditures of approximately \$2.75 million, and public works, which incurred expenditures of approximately \$758,000 in 2008. Employee benefit expenses accounted for approximately an additional \$1.2 million.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. Overall, the General Fund's revenue budget was increased during the year by a net amount of approximately \$254,000. Overall actual revenues were greater than the original budget by \$503,325, or 8.2 percent. The largest unfavorable variance was in fines and forfeiture revenue, with a negative variance of \$17,645.

The City's expenditure budget was increased \$253,992 by amendments during the year, mainly as a result of increases in the police, assessing, and DPS internal service charges to the General Fund. The City's other departments overall stayed within or under budget, resulting in total expenditures of \$6,297,151 (approximately 3 percent) above original budget. The General Fund's unreserved and undesignated fund balance has increased to \$1,671,606 in 2008 from \$1,652,303 in 2007.

City of New Baltimore, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounted to \$72,065,369 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$10,090,685 or 14 percent, which represents decreases in governmental activities of \$319,992 or 1.4 percent and an increase in business-type activities of \$10,410,677 or 26.2 percent.

Major capital asset events during the current fiscal year included the following:

- Completion of the water plant expansion project
- The ongoing wastewater plant improvement project
- Vehicle and equipment purchases
- Walter and Mary Burke Park beach and other park improvements
- Repaving of Jefferson and other road projects

At the end of the current fiscal year, the City had bonded debt outstanding of \$27,416,915. Debt consists of general obligation bonds which are backed by the full faith and credit of the City. Outstanding obligations as of the end of the fiscal year are as follows.

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 18,325,000	\$ 9,091,915	\$ 27,416,915

The governmental activities bonds consist of road improvement debt of \$4,700,000 and water plant expansion debt of \$13,625,000. Business-type activities debt is a result of funds drawn from the Michigan Clean Water State Revolving Fund for wastewater plant improvements and expansion.

Additional information concerning the City's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Like most other communities in Michigan, particularly southeast Michigan, the City continues to struggle with providing necessary services with limited revenues. For the fiscal year ending June 30, 2009, the possibility of continuing reductions to the statutory portion of state revenue sharing continues to be a concern. State-shared gas and oil tax distributions that are used for roads maintenance and construction also continue to trend downward.

The City and its residents are suffering from the effects of a slowdown in the housing market, which currently leaves many projects incomplete and as eyesores on the landscape of the community. There are record numbers of foreclosures in the community. These factors were taken into consideration in next year's budget.

City of New Baltimore, Michigan

Management's Discussion and Analysis (Continued)

Also considered in the preparation of next year's budget are contractual wage increases, (currently being negotiated), an increase in pension contributions, and rising healthcare costs.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances, and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the city clerk's office, 36535 Green Street, New Baltimore, MI 48047.

City of New Baltimore, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 4,502,068	\$ 6,671,230	\$ 11,173,298	\$ 791,999
Investments	3,042,692	184,049	\$ 3,226,741	-
Receivables - Net:				
Taxes - Delinquent	69,892	-	69,892	-
Customers	185,857	991,733	1,177,590	-
Interest	47,573	34,788	82,361	1,855
Other	2,371	-	2,371	-
Internal balances	(510,328)	510,328	-	-
Due from other governmental units	291,937	38,815	330,752	-
Prepaid costs and other assets	306,963	106,550	413,513	-
Long-term advances (from) to other funds	(250,140)	250,140	-	-
Inventories	43,456	83,471	126,927	-
Restricted assets	-	828,304	828,304	-
Nondepreciable capital assets	5,096,750	1,039,105	6,135,855	-
Depreciable capital assets - Net	16,891,138	49,038,366	65,929,504	267,000
Total assets	29,720,229	59,776,879	89,497,108	1,060,854
Liabilities				
Accounts payable	268,401	2,372,117	2,640,518	895
Due to other governmental units	15,826	-	15,826	-
Accrued and other liabilities	525,240	60,059	585,299	3,714
Deferred revenue	54,795	-	54,795	-
Noncurrent liabilities:				
Due within one year	668,196	42,721	710,917	21,066
Due in more than one year	17,825,000	9,091,915	26,916,915	41,471
Total liabilities	19,357,458	11,566,812	30,924,270	67,146
Net Assets				
Invested in capital assets - Net of related debt	3,662,888	41,813,860	45,476,748	204,463
Restricted:				
Debt service	315,098	-	315,098	-
Highways and streets	719,783	-	719,783	-
Public safety	69,385	-	69,385	-
Recreation and culture	937,601	-	937,601	-
Perpetual care	200,000	-	200,000	-
Cemetery	98,421	-	98,421	-
Unrestricted	4,359,595	6,396,207	10,755,802	789,245
Total net assets	\$ 10,362,771	\$ 48,210,067	\$ 58,572,838	\$ 993,708

City of New Baltimore, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,351,022	\$ 316,009	\$ 13,137	\$ -
Public safety	3,019,286	197,423	25,700	-
Public works	1,001,483	559,881	-	-
Highways and streets	1,680,598	26,916	675,015	-
Community and economic development	222,166	-	-	-
Recreation and culture	1,157,657	103,751	29,681	-
Interest on long-term debt	783,308	-	-	-
Total governmental activities	9,215,520	1,203,980	743,533	-
Business-type activities:				
Water	2,038,320	1,789,952	-	-
Sewer	1,890,579	2,044,879	-	210,615
Storm water	172,631	152,546	-	-
Total business-type activities	4,101,530	3,987,377	-	210,615
Total primary government	<u>\$ 13,317,050</u>	<u>\$ 5,191,357</u>	<u>\$ 743,533</u>	<u>\$ 210,615</u>
Component units:				
Downtown Development Authority	\$ 26,937	\$ -	\$ -	\$ -
Economic Development Corporation	28,756	-	-	-
Total component units	<u>\$ 55,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Property taxes for debt service				
Property taxes for library				
State-shared revenues				
Unrestricted investment earnings				
Insurance recoveries				
Gain on disposal of assets				
Miscellaneous				
Transfers - Internal activities				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,021,876)	\$ -	\$ (1,021,876)	\$ -
(2,796,163)	-	(2,796,163)	-
(441,602)	-	(441,602)	-
(978,667)	-	(978,667)	-
(222,166)	-	(222,166)	-
(1,024,225)	-	(1,024,225)	-
(783,308)	-	(783,308)	-
(7,268,007)	-	(7,268,007)	-
-	(248,368)	(248,368)	-
-	364,915	364,915	-
-	(20,085)	(20,085)	-
-	96,462	96,462	-
(7,268,007)	96,462	(7,171,545)	-
-	-	-	(26,937)
-	-	-	(28,756)
-	-	-	(55,693)
4,429,814	-	4,429,814	126,260
1,233,722	-	1,233,722	-
600,303	-	600,303	-
608,816	-	608,816	-
427,780	319,813	747,593	22,901
2,868	5,167	8,035	-
2,690	-	2,690	-
7,092	-	7,092	10,277
49,650	(49,650)	-	-
7,362,735	275,330	7,638,065	159,438
94,728	371,792	466,520	103,745
10,268,043	47,838,275	58,106,318	889,963
\$ 10,362,771	\$ 48,210,067	\$ 58,572,838	\$ 993,708

City of New Baltimore, Michigan

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 826,600	\$ 2,458,341	\$ 3,284,941
Investments	1,050,663	1,992,029	3,042,692
Receivables - Net:			
Taxes - Delinquent	49,443	20,449	69,892
Customers	185,347	-	185,347
Interest	21,922	23,445	45,367
Other	2,371	-	2,371
Due from other governmental units	198,805	93,132	291,937
Due from other funds	133,000	-	133,000
Prepaid costs and other assets	-	4,699	4,699
Total assets	\$ 2,468,151	\$ 4,592,095	\$ 7,060,246
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 149,300	\$ 74,010	\$ 223,310
Due to other governmental units	10,322	5,504	15,826
Due to other funds	-	146,200	146,200
Accrued and other liabilities	282,545	17,362	299,907
Deferred revenue	104,238	20,449	124,687
Advances from other funds	250,140	-	250,140
Total liabilities	796,545	263,525	1,060,070
Fund Balances			
Reserved for:			
Debt service	-	315,098	315,098
Prepaid costs	-	4,699	4,699
Perpetual care	-	200,000	200,000
Unreserved - Undesignated, reported in:			
General Fund	1,671,606	-	1,671,606
Special Revenue Funds	-	3,808,773	3,808,773
Total fund balances	1,671,606	4,328,570	6,000,176
Total liabilities and fund balances	\$ 2,468,151	\$ 4,592,095	\$ 7,060,246

City of New Baltimore, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2008

Fund Balance - Total Governmental Funds \$ 6,000,176

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds 21,214,448

Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures 69,892

Deferred bond charges are not financial resources, and are not reported in the funds 302,264

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Accrued interest (194,754)

Long-term debt (18,325,000)

Compensated absences (122,515)

Internal Service Funds are included as part of governmental activities 1,418,260

Net Assets - Governmental Activities \$ 10,362,771

City of New Baltimore, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Property taxes	\$ 4,429,613	\$ 1,834,025	\$ 6,263,638
Licenses and permits	350,010	114,167	464,177
Federal sources	2,304	-	2,304
State sources	640,349	578,123	1,218,472
Charges for services	899,462	78,782	978,244
Fines and forfeitures	12,155	26,329	38,484
Contributions	-	124,638	124,638
Interest	181,115	212,340	393,455
Other	49,106	16,273	65,379
Total revenues	6,564,114	2,984,677	9,548,791
Expenditures			
Current:			
General government	1,519,193	109,953	1,629,146
Public safety	2,751,996	333,474	3,085,470
Public works	757,974	-	757,974
Highways and streets	-	776,958	776,958
Recreation and cultural	631,317	488,146	1,119,463
Other	151,488	-	151,488
Debt service:			
Principal	-	425,000	425,000
Interest	-	792,632	792,632
Capital outlay	-	923,307	923,307
Total expenditures	5,811,968	3,849,470	9,661,438
Excess of Revenues Over (Under) Expenditures	752,146	(864,793)	(112,647)
Other Financing Sources (Uses)			
Transfers in	49,650	804,536	854,186
Transfers out	(785,183)	(268,557)	(1,053,740)
Proceeds from the sale of capital assets	2,690	-	2,690
Total other financing (uses) sources	(732,843)	535,979	(196,864)
Net Change in Fund Balances	19,303	(328,814)	(309,511)
Fund Balances - Beginning of year	1,652,303	4,657,384	6,309,687
Fund Balances - End of year	\$ 1,671,606	\$ 4,328,570	\$ 6,000,176

City of New Baltimore, Michigan

Governmental Funds Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$	(309,511)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		(491,488)
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Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds		201
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		425,000
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Change in accrued interest on long-term debt is not recorded in the governmental funds		9,324
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The change in liability for compensated absences is recorded when incurred in the statement of activities		(18,347)
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Internal Service Funds are also included as governmental activities		479,549
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Change in Net Assets of Governmental Activities	\$	<u>94,728</u>
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City of New Baltimore, Michigan

Proprietary Funds Statement of Net Assets June 30, 2008

	Enterprise Funds				Governmental Activities
	Major Funds		Nonmajor -	Total	Internal Service Funds
	Water	Sewer	Storm Water		
Current Assets					
Cash and cash equivalents	\$ 879,555	\$ 5,537,152	\$ 254,523	\$ 6,671,230	\$ 1,217,127
Investments	-	160,140	23,909	184,049	-
Receivables - Net:					
Customers	365,127	626,606	-	991,733	510
Interest	7,278	24,181	3,329	34,788	2,206
Due from other governmental units	-	-	38,815	38,815	-
Due from other funds	101,800	-	-	101,800	13,200
Inventories	83,471	-	-	83,471	43,456
Long-term advances to other funds - Current portion	19,242	19,242	-	38,484	-
Prepaid costs and other assets	106,550	-	-	106,550	-
Total current assets	1,563,023	6,367,321	320,576	8,250,920	1,276,499
Noncurrent Assets					
Long-term advances to other funds - Net of current portion	105,828	105,828	-	211,656	-
Restricted assets	828,304	-	-	828,304	-
Capital assets	23,351,598	24,175,168	2,550,705	50,077,471	773,440
Total noncurrent assets	24,285,730	24,280,996	2,550,705	51,117,431	773,440
Total assets	25,848,753	30,648,317	2,871,281	59,368,351	2,049,939
Current Liabilities					
Current portion of long-term liabilities	20,088	22,633	-	42,721	45,681
Accounts payable	280,959	2,089,263	1,895	2,372,117	45,091
Due to other funds	-	101,800	-	101,800	-
Accrued and other liabilities	18,745	41,314	-	60,059	30,579
Total current liabilities	319,792	2,255,010	1,895	2,576,697	121,351
Noncurrent Liabilities - Long-term debt - Net of current portion	-	9,091,915	-	9,091,915	-
Total liabilities	319,792	11,346,925	1,895	11,668,612	121,351
Net Assets					
Invested in capital assets	24,179,902	15,083,253	2,550,705	41,813,860	773,440
Unrestricted	1,349,059	4,218,139	318,681	5,885,879	1,155,148
Total net assets	<u>\$ 25,528,961</u>	<u>\$ 19,301,392</u>	<u>\$ 2,869,386</u>	47,699,739	<u>\$ 1,928,588</u>
Adjustment to reflect the consolidation of internal service fund activities related to Enterprise Funds				510,328	
Net Assets of Business-type Activities				<u>\$ 48,210,067</u>	

City of New Baltimore, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Enterprise Funds				Governmental Activities
	Major Funds		Nonmajor - Storm	Total	Internal Service Funds
	Water	Sewer	Water		
Operating Revenues					
Charges for services	\$ 1,787,762	\$ 2,041,401	\$ 137,504	\$ 3,966,667	\$ 1,522,703
Contributions	-	-	-	-	-
Other	2,190	3,478	15,042	20,710	3,642
Total operating revenues	1,789,952	2,044,879	152,546	3,987,377	1,526,345
Operating Expenses					
General and administrative	174,019	709,030	26,019	909,068	271,822
Plant operation	739,940	531,016	-	1,270,956	-
System network	569,363	185,503	58,001	812,867	-
Services	-	-	-	-	945,436
Depreciation	598,899	457,167	80,402	1,136,468	85,242
Total operating expenses	2,082,221	1,882,716	164,422	4,129,359	1,302,500
Operating (Loss) Income	(292,269)	162,163	(11,876)	(141,982)	223,845
Nonoperating Revenue					
Interest income	101,244	204,529	14,040	319,813	34,325
Insurance proceeds	5,167	-	-	5,167	-
Total nonoperating revenue	106,411	204,529	14,040	324,980	34,325
Net (Loss) Income - Before donated assets	(185,858)	366,692	2,164	182,998	258,170
Contributed Capital - State sources	-	210,615	-	210,615	-
Net (Loss) Income - After donated assets	(185,858)	577,307	2,164	393,613	258,170
Transfers In	-	-	-	-	249,204
Transfers Out	-	(49,650)	-	(49,650)	-
Change in Net Assets	(185,858)	527,657	2,164	343,963	507,374
Net Assets - Beginning of year	25,714,819	18,773,735	2,867,222		1,421,214
Net Assets - End of year	<u>\$ 25,528,961</u>	<u>\$ 19,301,392</u>	<u>\$ 2,869,386</u>		<u>\$ 1,928,588</u>
Adjustment to reflect the consolidation of internal service fund activities related to Enterprise Funds				27,829	
Change in Net Assets of Business-type Activities				<u>\$ 371,792</u>	

City of New Baltimore, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds				Governmental Activities
	Major Funds				Internal Service Funds
	Water	Sewer	Storm Water	Total	
Cash Flows from Operating Activities					
Receipts from customers	\$ 1,572,583	\$ 2,142,522	\$ 137,504	\$ 3,852,609	\$ -
Receipts from interfund services	-	-	-	-	1,502,015
Payments to suppliers	(2,369,566)	1,207,958	(62,700)	(1,224,308)	(245,746)
Payments to employees	(668,899)	(452,215)	(19,425)	(1,140,539)	(922,384)
Internal activity - Payments to other funds	-	-	-	-	-
Other receipts	2,190	3,478	15,042	20,710	3,642
Net cash (used in) provided by operating activities	(1,463,692)	2,901,743	70,421	1,508,472	337,527
Cash Flows from Noncapital Financing Activities					
Transfers from other funds	-	(49,650)	-	(49,650)	249,204
Transfers to other funds	-	-	-	-	-
Net cash (used in) provided by noncapital financing activities	-	(49,650)	-	(49,650)	249,204
Cash Flows from Capital and Related Financing Activities					
Issuance of debt	-	9,091,915	-	9,091,915	-
Purchase of capital assets	(564,620)	(10,771,910)	-	(11,336,530)	(256,738)
Proceeds from insurance recoveries	5,167	-	-	5,167	-
Payments on long-term advances to other funds	28,863	28,863	-	57,726	-
Net cash used in capital and related financing activities	(530,590)	(1,651,132)	-	(2,181,722)	(256,738)
Cash Flows from Investing Activities					
Proceeds from sale of investments	-	838,767	(1,074)	837,693	-
Interest received on investments	99,824	192,969	11,397	304,190	34,460
Net cash provided by investing activities	99,824	1,031,736	10,323	1,141,883	34,460
Net (Decrease) Increase in Cash and Cash Equivalents	(1,894,458)	2,232,697	80,744	418,983	364,453
Cash and Cash Equivalents - Beginning of year	3,602,317	3,304,455	173,779	7,080,551	852,674
Cash and Cash Equivalents - End of year	<u>\$ 1,707,859</u>	<u>\$ 5,537,152</u>	<u>\$ 254,523</u>	<u>\$ 7,499,534</u>	<u>\$ 1,217,127</u>
Balance Sheet Classification of Cash and Cash Equivalents					
Cash and cash equivalents	\$ 879,555	\$ 5,537,152	\$ 254,523	\$ 6,671,230	\$ 1,217,127
Restricted assets	828,304	-	-	828,304	-
Total cash and cash equivalents	<u>\$ 1,707,859</u>	<u>\$ 5,537,152</u>	<u>\$ 254,523</u>	<u>\$ 7,499,534</u>	<u>\$ 1,217,127</u>

City of New Baltimore, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds				Internal Service Funds
	Water	Sewer	Storm Water	Total	Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (292,269)	\$ 162,163	\$ (11,876)	\$ (141,982)	\$ 223,845
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	598,899	457,167	80,402	1,136,468	85,242
Changes in assets and liabilities:					
Receivables	(113,379)	(189,206)	-	(302,585)	(510)
Due from other funds	(101,800)	290,327	-	188,527	(13,200)
Due from other governmental units	-	-	-	-	(6,978)
Inventories	(10,359)	-	-	(10,359)	(19,474)
Prepaid costs and other assets	10,836	6,999	-	17,835	14,752
Accounts payable	(1,275,740)	2,035,995	1,895	762,150	30,798
Accrued and other liabilities	10,447	36,498	-	46,945	23,052
Due to other funds	(290,327)	101,800	-	(188,527)	-
Net cash (used in) provided by operating activities	<u>\$ (1,463,692)</u>	<u>\$ 2,901,743</u>	<u>\$ 70,421</u>	<u>\$ 1,508,472</u>	<u>\$ 337,527</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2008, the City received \$210,615 in capital contributions from the State for the sewer system.

City of New Baltimore, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefits Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 530,090	\$ 2,957
Investments:		
Stocks	4,256,582	-
Bonds	273,674	-
Long-term certificates of deposit	4,035,147	-
Due from other governmental units	328	-
	<u>9,095,821</u>	<u>-</u>
Total assets	9,095,821	<u><u>\$ 2,957</u></u>
Liabilities		
Accounts payable	-	\$ 2,371
Due to other governmental units	-	586
	<u>-</u>	<u>586</u>
Total liabilities	-	<u><u>\$ 2,957</u></u>
Net Assets Held in Trust for Pension and Other Employee Benefits	<u><u>\$ 9,095,821</u></u>	

City of New Baltimore, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2008

	Pension and Other Employee Benefits Trust Funds
Additions	
Investment income (loss):	
Interest and dividends	\$ 55,766
Net decrease in fair value of investments	<u>(258,800)</u>
Net investment loss	(203,034)
Contributions:	
Employer	886,199
Employee	<u>160,582</u>
Total contributions	<u>1,046,781</u>
Total additions - Net of investment loss	843,747
Deductions	
General and administrative	65,878
Benefit payments	<u>239,328</u>
Total deductions	<u>305,206</u>
Net Increase in Net Assets Held in Trust	538,541
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>8,557,280</u>
End of year	<u><u>\$ 9,095,821</u></u>

City of New Baltimore, Michigan

Component Units Statement of Net Assets June 30, 2008

	Downtown Development Authority	Economic Development Corporation	Local Development Financing Authority	Total
Assets				
Cash and cash equivalents	\$ 173,892	\$ 19,637	\$ 598,470	\$ 791,999
Interest receivable	-	-	1,855	1,855
Capital assets	<u>267,000</u>	<u>-</u>	<u>-</u>	<u>267,000</u>
Total assets	440,892	19,637	600,325	1,060,854
Liabilities				
Accounts payable	-	895	-	895
Accrued and other liabilities	2,031	1,683	-	3,714
Noncurrent liabilities:				
Due within one year	21,066	-	-	21,066
Due in more than one year	<u>41,471</u>	<u>-</u>	<u>-</u>	<u>41,471</u>
Total liabilities	<u>64,568</u>	<u>2,578</u>	<u>-</u>	<u>67,146</u>
Net Assets				
Investment in capital assets - Net of related debt	204,463	-	-	204,463
Unrestricted	<u>171,861</u>	<u>17,059</u>	<u>600,325</u>	<u>789,245</u>
Total net assets	<u>\$ 376,324</u>	<u>\$ 17,059</u>	<u>\$ 600,325</u>	<u>\$ 993,708</u>

City of New Baltimore, Michigan

Component Units Statement of Activities Year Ended June 30, 2008

	Downtown Development Authority	Economic Development Corporation	Local Development Financing Authority	Total
Expenses - Community and economic development	\$ 26,937	\$ 28,756	\$ -	\$ 55,693
General Revenues				
Property taxes	51,070	-	75,190	126,260
Interest	21	805	22,075	22,901
Other	532	9,745	-	10,277
Transfers - Internal activities	(9,745)	19,490	(9,745)	-
Total general revenues and transfers	41,878	30,040	87,520	159,438
Change in Net Assets	14,941	1,284	87,520	103,745
Net Assets - Beginning of year	361,383	15,775	512,805	889,963
Net Assets - End of year	<u>\$ 376,324</u>	<u>\$ 17,059</u>	<u>\$ 600,325</u>	<u>\$ 993,708</u>

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of New Baltimore, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of New Baltimore, Michigan:

Reporting Entity

The City of New Baltimore, Michigan is governed by an elected six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within that district. The DDA's governing body, which consists of 12 members, is appointed by the mayor and confirmed by the City Council.

Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement of industrial and commercial enterprises in relocating, purchasing, constructing, or improving sites within the City. Currently, there is no governing body which has been appointed. The EDC's budget is subject to approval by the City Council.

Local Development Financing Authority - The Local Development Financing Authority (LDFA) was created to prevent conditions of unemployment and promote economic growth by providing those public improvements necessary to promote and sustain industrial development within the established district. The LDFA's governing body, which consists of 11 members, is appointed by the mayor and confirmed by the City Council. In addition, the LDFA's budget is subject to approval by the City Council.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, receivables have been recorded for special assessments and federal grant reimbursements which will be collected after the period of availability, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City's only major fund as of June 30, 2008 is the General Fund.

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water treatment and distribution systems.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage disposal and treatment systems.

Additionally, the City reports the following internal service and fiduciary activities:

- Internal Service Funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. These include vehicles and equipment maintenance, the department of public services, and the retiree healthcare funds.
- The Pension and Other Employee Benefits Trust Fund accounts for the activities of the City of New Baltimore Employees Retirement System, which accumulates resources for retirement benefit payments to qualified employees.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

- The Agency Fund accounts for assets held by the City in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative and operating expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 15 of the year levied, at which time penalties and interest are assessed.

The City's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2007 taxable valuation of the City totaled \$455,351,726, on which taxes levied consisted of 9.8299 mills for operating purposes, 1.3446 mills for library services, and 2.7200 mills for various City debt. This resulted in approximately \$4,369,000 for operating purposes, \$598,000 for library services, and \$1,229,000 for City debt. These amounts are recognized in the respective General, Library, and Debt Service Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The restricted assets in the Water Fund consist of cash and cash equivalents and investments required to be set aside for construction.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$35,000 for infrastructure assets and \$5,000 for all other capital assets and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies (Continued)

Assets are depreciated using the straight-line method over the following useful lives:

Land improvements	20-50 years
Buildings and building improvements	20-50 years
Public domain infrastructure	20-50 years
Water and wastewater system infrastructure	50 years
Vehicles and equipment	5-25 years
Library books	5 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end, except for those approved by the City Council for carryforward. The annual budget is prepared by the city management and adopted by the City Council; subsequent amendments are approved by the City Council. During the current year, the budget was amended in a legally permissible manner, except that the final budget amendments were approved subsequent to June 30, 2008.

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the mayor on or before February 1. During February and March, the mayor reviews the appropriation requests, meets with the departments, and puts together the budget. The budget is submitted to the City Council on or before the second regular meeting in April. During the next month, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by resolution no later than the first regular meeting in May.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the line-item basis level.

The amount of encumbrances outstanding at June 30, 2008 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted in the General Fund as follows:

	Amended Budget	Actual
Clerk's office - Contract services	\$ 72,000	\$ 88,563
Police department - Health care	219,301	229,572
Police department - Pension contribution	192,399	202,834
Refuse collection - Contractual services	430,039	468,667
Transfer out - Department of Public Service	233,318	249,204

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund and the Retiree Health Care Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated seven banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all state statutory authority investments as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$17,392,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. In addition, the City's component units had approximately \$766,000 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. The City's Pension and Retiree Health Care Funds' investment policies do not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value	Less Than One Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Corporate bonds:					
Pension Fund	\$ 14,068	\$ 2,110	\$ 5,909	\$ 5,768	\$ 281
Retiree Health Care Fund	259,607	32,492	62,722	20,300	144,093

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. The City's pension and retiree healthcare funds' investment policies also do not further limit the investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment Type	Fair Value			Rating	Rating Organization
	Primary Government	Pension Fund	Retiree Health Care Fund		
Corporate bonds	\$ -	\$ 6,331	\$ 100,293	AAA	S&P
Corporate bonds	-	4,502	16,425	AA	S&P
Corporate bonds	-	3,236	38,504	A	S&P
Corporate bonds	-	-	79,354	BBB	S&P
Corporate bonds	-	-	23,321	BB	S&P
Corporate bonds	-	-	1,709	Not rated	N/A
Bank investment pools	1,569,601	-	-	AAA-VI	Fitch
Bank investment pools	371,000	-	-	Not rated	N/A

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds and the governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue recorded is as follows:

	Unavailable	Unearned	Total
Inspection and other fees received	\$ -	\$ 54,795	\$ 54,795
Property taxes receivable	<u>69,892</u>	<u>-</u>	<u>69,892</u>
Total	<u>\$ 69,892</u>	<u>\$ 54,795</u>	<u>\$ 124,687</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

Governmental Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Reclassifications	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 4,687,953	\$ -	\$ -	\$ -	\$ 4,687,953
Construction in progress	<u>-</u>	<u>408,797</u>	<u>-</u>	<u>-</u>	<u>408,797</u>
Subtotal	4,687,953	408,797	-	-	5,096,750
Capital assets being depreciated:					
Land improvements	1,103,757	-	-	-	1,103,757
Buildings	1,186,450	255,746	-	-	1,442,196
Vehicles and equipment	2,687,075	45,220	-	-	2,732,295
Library books	266,797	50,703	-	-	317,500
Infrastructure	<u>23,404,310</u>	<u>130,597</u>	<u>-</u>	<u>-</u>	<u>23,534,907</u>
Subtotal	28,648,389	482,266	-	-	29,130,655
Accumulated depreciation:					
Land improvements	700,498	39,747	-	-	740,245
Buildings	664,980	26,148	-	-	691,128
Vehicles and equipment	2,086,724	129,363	-	-	2,216,087
Library books	148,018	51,686	-	-	199,704
Infrastructure	<u>7,428,242</u>	<u>964,111</u>	<u>-</u>	<u>-</u>	<u>8,392,353</u>
Subtotal	<u>11,028,462</u>	<u>1,211,055</u>	<u>-</u>	<u>-</u>	<u>12,239,517</u>
Net capital assets being depreciated	<u>17,619,927</u>	<u>(728,789)</u>	<u>-</u>	<u>-</u>	<u>16,891,138</u>
Net capital assets	<u>\$ 22,307,880</u>	<u>\$ (319,992)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,987,888</u>

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2007	Additions	Disposals	Reclassifications	Balance June 30, 2008
Capital assets not being depreciated:					
Land	\$ 1,039,105	\$ -	\$ -	\$ -	\$ 1,039,105
Construction in progress	13,315,641	-	-	(13,315,641)	-
Subtotal	14,354,746	-	-	(13,315,641)	1,039,105
Capital assets being depreciated:					
Land improvements	412,000	-	-	-	412,000
Buildings	12,902,167	11,497,196	-	13,315,641	37,715,004
Equipment	640,126	49,949	-	-	690,075
Infrastructure	25,557,941	-	-	-	25,557,941
Subtotal	39,512,234	11,547,145	-	13,315,641	64,375,020
Accumulated depreciation:					
Land improvements	320,200	7,800	-	-	328,000
Buildings	5,866,221	583,180	-	-	6,449,401
Equipment	263,517	35,367	-	-	298,884
Infrastructure	7,750,248	510,121	-	-	8,260,369
Subtotal	14,200,186	1,136,468	-	-	15,336,654
Net capital assets being depreciated	25,312,048	10,410,677	-	13,315,641	49,038,366
Net capital assets	<u>\$ 39,666,794</u>	<u>\$ 10,410,677</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,077,471</u>

Capital asset activity of the component units was as follows:

Downtown Development Authority	Balance July 1, 2007	Additions	Disposals	Reclassifications	Balance June 30, 2008
Capital assets being depreciated - Infrastructure	\$ 460,345	\$ -	\$ -	\$ -	\$ 460,345
Accumulated depreciation - Infrastructure	174,931	18,414	-	-	193,345
Net capital assets	<u>\$ 285,414</u>	<u>\$ (18,414)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 267,000</u>

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government and component units as follows:

Governmental activities:

General government	\$ 15,715
Public safety	48,505
Public works	1,809
Highways and streets	960,528
Recreation and culture	99,256

Capital assets held by the City's Internal Service Funds
are charged to the various functions based on their usage
of the assets

85,242

Total governmental activities

\$ 1,211,055

Business-type activities:

Water	\$ 598,899
Sewer	457,167
Storm water	80,402

Total business-type activities

\$ 1,136,468

Component unit activities - DDA

\$ 18,414

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other nonmajor governmental funds	\$ 133,000
Water Fund	Sewer Fund	101,800
Internal Service funds	Other nonmajor governmental funds	13,200
	Total	\$ 248,000

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

The Water and Sewer Funds each advanced the General Fund proceeds for the purchase of a new fire truck during the 2000 fiscal year. The terms of the advance call for semiannual payments of \$9,621 for each advance, plus interest at a rate of 1 percent over the applicable Consumer Price Index (CPI). The advances will be fully matured in the fiscal year ending June 30, 2015. The following amounts are currently outstanding:

Receivable Fund	Payable Fund	Amount
Advances to/from Other Funds		
Water Fund	General Fund	\$ 125,070
Sewer Fund	General Fund	125,070
	Total	<u>\$ 250,140</u>

Interfund Transfers

	Transfer Out - General Fund
Transfer in:	
Other nonmajor governmental funds	\$ 535,979
Internal service funds	249,204
Total	<u>\$ 785,183</u>
	Transfer Out - Other Nonmajor Governmental Funds
Transfer in - Other nonmajor governmental funds	<u>\$ 268,557</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

The transfer from the General Fund and other nonmajor governmental funds to the other nonmajor governmental, component unit, and internal service funds and the transfer from one component unit to another represents the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations; the transfer from the Sewer Fund to the General Fund represents the movement of resources to eliminate a special assessment.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
<u>Governmental Activities</u>							
General obligation bonds:							
1999 Unlimited Tax Obligations Amount of issue - \$2,000,000 Maturing through 2018	4.0%-6.0%	\$ 1,450,000	\$ -	\$ 100,000	\$ -	\$ 1,350,000	\$ 100,000
2001 Unlimited Tax Obligations Amount of issue - \$3,000,000 Maturing through 2021	4.0%-6.0%	2,550,000	-	100,000	-	2,450,000	125,000
2002 Unlimited Tax Obligations Amount of issue - \$995,000 Maturing through 2022	4.0%-5.1%	925,000	-	25,000	-	900,000	25,000
2004 Unlimited Tax Obligations Amount of issue - \$9,000,000 Maturing through 2030	3.0%-4.7%	8,925,000	-	100,000	-	8,825,000	150,000
2005 Unlimited Tax Obligations Amount of issue - \$5,000,000 Maturing through 2030	3.05%-4.35%	4,900,000	-	100,000	-	4,800,000	100,000
Total bond obligations		18,750,000	-	425,000	-	18,325,000	500,000
Other long-term obligation - Compensated absences		142,241	25,955	-	-	168,196	168,196
Total governmental activities		<u>\$18,892,241</u>	<u>\$ 25,955</u>	<u>\$ 425,000</u>	<u>\$ -</u>	<u>\$ 18,493,196</u>	<u>\$ 668,196</u>
<u>Business-type Activities</u>							
General obligation bonds:							
2007 Michigan Clean Water State Revolving Fund Program, \$19,890,000 available to be drawn, of which \$9,091,915 has been drawn down, maturing through 2029	1.625%	\$ -	\$ 9,091,915	\$ -	\$ -	\$ 9,091,915	\$ -
Other long-term obligation - Compensated absences		42,821	-	100	-	42,721	42,721
Total business-type activities		<u>\$ 42,821</u>	<u>\$ 9,091,915</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 9,134,636</u>	<u>\$ 42,721</u>
<u>Component Units</u>							
DDA Bonds - Tax Increment Revenue Bond Defeasance - Amount of issue - \$189,772	4.26%	\$ 82,067	\$ -	\$ 19,530	\$ -	\$ 62,537	\$ 21,066

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 500,000	\$ 774,956	\$ 1,274,956	\$ -	\$ 137,636	\$ 137,636	\$ 21,066	\$ 2,709	\$ 23,775
2010	575,000	755,631	1,330,631	850,000	147,744	997,744	22,849	1,791	24,640
2011	625,000	733,381	1,358,381	865,000	133,931	998,931	18,622	-	18,622
2012	675,000	708,575	1,383,575	880,000	119,875	999,875	-	-	-
2013	700,000	681,250	1,381,250	890,000	105,575	995,575	-	-	-
2014-2018	4,500,000	2,916,731	7,416,731	4,675,000	306,062	4,981,062	-	-	-
2019-2023	4,450,000	1,895,663	6,345,663	931,915	15,144	947,059	-	-	-
2024-2028	4,250,000	973,525	5,223,525	-	-	-	-	-	-
2029-2030	2,050,000	1,007,813	3,057,813	-	-	-	-	-	-
Total	\$ 18,325,000	\$ 10,447,525	\$ 28,772,527	\$ 9,091,915	\$ 965,965	\$ 10,057,880	\$ 62,537	\$ 4,500	\$ 67,037

Note 8 - Restricted Assets

Restricted assets in the Water Fund are made up of cash deposits of \$828,304.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, participates in the Michigan Municipal League risk pool for claims relating to general liability and property loss and the Michigan Municipal Workers' Compensation Fund risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Workers' Compensation Fund risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of New Baltimore retirement system is a single-employer defined benefit pension plan that is administered by the City of New Baltimore, Michigan; this plan covers all full-time municipal employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 23 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 57 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates.

Annual Pension Cost - For the year ended June 30, 2008, the City's contribution of \$512,484 equaled the annual pension cost. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended June 30		
	2008	2007	2006
Annual pension cost (APC)	\$ 512,484	\$ 348,275	\$ 364,977
Percentage of APC contributed	100.0%	100.0%	100.0%
Net pension obligation	-	-	-

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 67.5 percent funded. The actuarial accrued liability for benefits was \$11.3 million, and the actuarial value of assets was \$7.6 million, resulting in an unfunded actuarial accrued liability of \$3.7 million. The covered payroll (annual payroll for active employees covered by the plan) was \$2.9 million, and the ratio for the unfunded actuarial accrued liability to the covered payroll was 124.1 percent.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at June 30, 2007 using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.0 percent per year compounded annually, of which 5.0 percent is attributable to inflation and (b) projected salary increases of 5.0 percent to 8.0 percent per year compounded annually, attributable to inflation. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 9 to 30 years.

Reserves - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

Reserve for employer contributions	\$ 4,604,851
Reserve for employee's contribution	1,400,747
Reserve for retired benefit payments	2,040,204

Note 11 - Contingent Liabilities

The City has been named as a defendant in numerous claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at June 30, 2008.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 11 - Contingent Liabilities (Continued)

Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Business-type activities:		
Wastewater treatment plant construction	\$ 10,472,706	\$ 9,650,300
Water plant construction	<u>12,574,347</u>	<u>262,630</u>
Total business-type activities	<u>\$ 23,047,053</u>	<u>\$ 9,912,930</u>

Note 12 - Other Postemployment Benefits

The City provides healthcare benefits to certain full-time employees upon retirement, in accordance with labor contracts. Currently, seven retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with a 25 percent contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare, with no contribution required from the retiree and a 25 percent contribution from dependents. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to \$61,312 paid out of the Retiree Health Care Fund internal service fund.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of New Baltimore, Michigan

Notes to Financial Statements June 30, 2008

Note 13 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the pension plan and retiree health care plan:

	Retiree Healthcare	Pension	Total
Statement of Net Assets			
Cash and investments	\$ 1,049,691	\$ 8,045,802	\$ 9,095,493
Other assets	328	-	328
Net assets	<u>\$ 1,050,019</u>	<u>\$ 8,045,802</u>	<u>\$ 9,095,821</u>
Statement of Changes in Net Assets			
Investment loss	\$ (26,174)	\$ (176,860)	\$ (203,034)
Contributions	386,722	660,059	1,046,781
Benefit payments	-	239,328	239,328
Other decreases	61,312	4,566	65,878
Change in net assets	<u>\$ 299,236</u>	<u>\$ 239,305</u>	<u>\$ 538,541</u>

Required Supplemental Information

City of New Baltimore, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 4,354,815	\$ 4,439,314	\$ 4,429,613	\$ (9,701)
Licenses and permits	146,978	167,026	350,010	182,984
Federal sources	-	2,304	2,304	-
State sources	616,084	639,787	640,349	562
Charges for services	786,520	841,424	899,462	58,038
Fines and forfeitures	41,322	29,800	12,155	(17,645)
Interest	150,000	154,946	181,115	26,169
Other	17,500	17,500	49,106	31,606
Total revenues	6,113,219	6,292,101	6,564,114	272,013
Expenditures				
General government:				
Council	76,086	79,668	79,514	154
Mayor	184,883	187,415	180,412	7,003
Elections	99,966	84,364	73,409	10,955
Assessor	121,059	137,959	137,116	843
Attorney	170,000	150,000	140,208	9,792
Clerk	533,188	544,388	521,987	22,401
Board of Review	2,900	2,900	1,757	1,143
Treasurer	103,204	103,204	99,807	3,397
Building and grounds	100,221	114,721	112,993	1,728
Planning	61,376	65,876	59,140	6,736
Engineering	101,459	108,459	112,850	(4,391)
Total general government	1,554,342	1,578,954	1,519,193	59,761
Public safety:				
Police	2,214,330	2,325,749	2,335,830	(10,081)
Fire	419,435	423,045	406,831	16,214
Crossing guards	13,897	13,897	9,335	4,562
Total public safety	2,647,662	2,762,691	2,751,996	10,695
Public works:				
Street lighting	162,738	162,738	157,533	5,205
Sidewalk and trail construction	56,375	38,105	35,475	2,630
Rubbish and garbage collection	470,399	524,545	563,173	(38,628)
Community tree program	38,750	17,750	1,793	15,957
Total public works	728,262	743,138	757,974	(14,836)
Recreation and cultural - Parks and recreation	658,808	670,308	631,317	38,991
Other - Community promotion	116,188	152,324	151,488	836
Total expenditures	5,705,262	5,907,415	5,811,968	95,447
Excess of Revenues Over Expenditures	407,957	384,686	752,146	367,460
Other Financing Sources (Uses)				
Transfers in	-	75,110	49,650	(25,460)
Transfers out	(407,957)	(759,796)	(785,183)	(25,387)
Proceeds from the sale of capital assets	-	-	2,690	2,690
Total other financing (uses) sources	(407,957)	(684,686)	(732,843)	(48,157)
Net Change in Fund Balances	-	(300,000)	19,303	319,303
Fund Balances - Beginning of year	1,652,303	1,652,303	1,652,303	-
Fund Balances - End of year	\$ 1,652,303	\$ 1,352,303	\$ 1,671,606	\$ 319,303

City of New Baltimore, Michigan

Required Supplemental Information Pension Systems Schedule of Funding Progress June 30, 2008 (dollar amounts in thousands)

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/01	\$ 4,625	\$ 5,425	\$ 800	85.3	\$ 2,108	38.0
06/30/02	4,928	5,890	962	83.7	2,300	41.8
06/30/03	5,215	6,517	1,302	80.0	2,525	51.6
06/30/04	5,606	7,043	1,437	79.6	2,555	56.2
06/30/05	6,119	7,924	1,805	77.2	2,672	67.6
06/30/06	6,779	9,727	2,948	69.7	2,808	105.0
06/30/07	7,596	11,254	3,658	67.5	2,949	124.0

City of New Baltimore, Michigan

Required Supplemental Information Schedule of Employer Contributions June 30, 2008

Year Ended June 30	Valuation Date June 30	Annual Required Contribution	Percentage Contributed
2002	2001	\$ 193,539	100
2003	2002	359,808	100
2004	2003	273,144	100
2005	2004	362,440	100
2006	2005	364,977	100
2007	2006	348,275	100
2008	2007	511,680	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation date, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	9-30 years*
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7.0%
Projected salary increases**	5.0% - 8.0%
**Includes inflation at	5.0%
Cost of living adjustments	None

* Combined liability is being amortized over a period of 17 years, with nine years remaining. Gains and losses are being amortized over a perpetual 10 years. Liabilities created by a plan amendment are amortized over a 30-year basis from the date established, with 30 years remaining.

Other Supplemental Information

City of New Baltimore, Michigan

	Special Revenue Funds						
	Major Streets	Local Streets	Cemetery Operating	Cemetery Land	Library	Building Inspection	Public Improvement
Assets							
Cash and cash equivalents	\$ 421,689	\$ 1,197	\$ -	\$ 98,421	\$ 58,179	\$ 49,382	\$ 1,416,227
Investments	-	359,080	-	-	864,120	-	602,779
Receivables - Net:							
Taxes - Delinquent	-	-	-	-	6,763	-	-
Interest	619	1,053	-	-	6,956	366	12,832
Due from other governmental units	62,566	30,566	-	-	-	-	-
Prepaid costs	-	-	-	-	4,699	-	-
Total assets	<u>\$ 484,874</u>	<u>\$ 391,896</u>	<u>\$ -</u>	<u>\$ 98,421</u>	<u>\$ 940,717</u>	<u>\$ 49,748</u>	<u>\$ 2,031,838</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ 10,787	\$ -	\$ -	\$ 14,275	\$ 5,320	\$ 43,556
Due to other governmental units	-	-	-	-	-	5,504	-
Due to other funds	13,200	133,000	-	-	-	-	-
Accrued and other liabilities	-	-	-	-	10,542	6,820	-
Deferred revenue	-	-	-	-	6,763	-	-
Total liabilities	13,200	143,787	-	-	31,580	17,644	43,556
Fund Balances							
Reserved:							
Debt service	-	-	-	-	-	-	-
Prepays	-	-	-	-	4,699	-	-
Perpetual care	-	-	-	-	-	-	-
Unreserved - Undesignated	471,674	248,109	-	98,421	904,438	32,104	1,988,282
Total fund balances	471,674	248,109	-	98,421	909,137	32,104	1,988,282
Total liabilities and fund balances	<u>\$ 484,874</u>	<u>\$ 391,896</u>	<u>\$ -</u>	<u>\$ 98,421</u>	<u>\$ 940,717</u>	<u>\$ 49,748</u>	<u>\$ 2,031,838</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

		Permanent Fund	Debt Service Funds					Total Nonmajor Governmental Funds
Drug Law Enforcement	Burke Estate	Perrpetual Care	1996 St. Clair Dr. Special Assessment	1999 Unlimited Tax	2001 Unlimited Tax	2002 Unlimited Tax	2005 Unlimited Tax	
\$ 37,353	\$ 369	\$ 199,862	\$ -	\$ 1,034	\$ 976	\$ 675	\$ 172,977	\$ 2,458,341
-	28,000	-	-	25,943	60,975	51,132	-	1,992,029
-	-	-	-	1,484	2,515	729	8,958	20,449
-	95	138	-	108	276	264	738	23,445
-	-	-	-	-	-	-	-	93,132
-	-	-	-	-	-	-	-	4,699
\$ 37,353	\$ 28,464	\$ 200,000	\$ -	\$ 28,569	\$ 64,742	\$ 52,800	\$ 182,673	\$ 4,592,095
\$ 72	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,010
-	-	-	-	-	-	-	-	5,504
-	-	-	-	-	-	-	-	146,200
-	-	-	-	-	-	-	-	17,362
-	-	-	-	1,502	2,546	729	8,909	20,449
72	-	-	-	1,502	2,546	729	8,909	263,525
-	-	-	-	27,067	62,196	52,071	173,764	315,098
-	-	-	-	-	-	-	-	4,699
-	-	200,000	-	-	-	-	-	200,000
37,281	28,464	-	-	-	-	-	-	3,808,773
37,281	28,464	200,000	-	27,067	62,196	52,071	173,764	4,328,570
\$ 37,353	\$ 28,464	\$ 200,000	\$ -	\$ 28,569	\$ 64,742	\$ 52,800	\$ 182,673	\$ 4,592,095

City of New Baltimore, Michigan

Special Revenue Funds

	Major Streets	Local Streets	Cemetery Operating	Cemetery Land	Library	Building Inspection	Public Improvement
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 600,303	\$ -	\$ -
Licenses and permits	-	-	-	-	-	114,167	-
State sources	382,267	186,740	-	-	9,116	-	-
Charges for services	-	-	16,320	-	4,936	46,726	-
Fines and forfeitures	-	-	-	-	7,135	1,955	-
Contributions	-	-	-	-	18,585	-	106,053
Interest	22,575	10,602	-	3,246	48,004	5,282	88,979
Other	-	-	-	-	9,275	3,548	3,450
Total revenues	404,842	197,342	16,320	3,246	697,354	171,678	198,482
Expenditures							
Current:							
General government	-	-	109,953	-	-	-	-
Public safety	-	-	-	-	-	328,874	-
Highways and streets	324,818	452,140	-	-	-	-	-
Recreation and culture	-	-	-	-	488,146	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	58,441	-	830,130
Total expenditures	324,818	452,140	109,953	-	546,587	328,874	830,130
Excess of Revenues Over (Under) Expenditures	80,024	(254,798)	(93,633)	3,246	150,767	(157,196)	(631,648)
Other Financing Sources (Uses)							
Transfers in	-	250,000	93,633	-	-	-	411,723
Transfers out	(250,000)	-	-	-	-	-	-
Total other financing (uses) sources	(250,000)	250,000	93,633	-	-	-	411,723
Net Change in Fund Balances	(169,976)	(4,798)	-	3,246	150,767	(157,196)	(219,925)
Fund Balances - Beginning of year	641,650	252,907	-	95,175	758,370	189,300	2,208,207
Fund Balances - End of year	<u>\$ 471,674</u>	<u>\$ 248,109</u>	<u>\$ -</u>	<u>\$ 98,421</u>	<u>\$ 909,137</u>	<u>\$ 32,104</u>	<u>\$ 1,988,282</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

		Permanent Fund	Debt Service Funds					Total Nonmajor Governmental Funds
Drug Law Enforcement	Burke Estate	Perpetual Care	1996 St. Clair Dr. Special Assessment	1999 Unlimited Tax	2001 Unlimited Tax	2002 Unlimited Tax	2005 Unlimited Tax	
\$ -	\$ -	\$ -	\$ -	\$ 133,816	\$ 226,788	\$ 79,158	\$ 793,960	\$ 1,834,025
-	-	-	-	-	-	-	-	114,167
-	-	-	-	-	-	-	-	578,123
-	-	10,800	-	-	-	-	-	78,782
17,239	-	-	-	-	-	-	-	26,329
-	-	-	-	-	-	-	-	124,638
776	994	7,757	-	4,350	5,680	2,971	11,124	212,340
-	-	-	-	-	-	-	-	16,273
18,015	994	18,557	-	138,166	232,468	82,129	805,084	2,984,677
-	-	-	-	-	-	-	-	109,953
4,600	-	-	-	-	-	-	-	333,474
-	-	-	-	-	-	-	-	776,958
-	-	-	-	-	-	-	-	488,146
-	-	-	-	100,000	100,000	25,000	200,000	425,000
-	-	-	-	64,200	116,131	44,688	567,613	792,632
34,736	-	-	-	-	-	-	-	923,307
39,336	-	-	-	164,200	216,131	69,688	767,613	3,849,470
(21,321)	994	18,557	-	(26,034)	16,337	12,441	37,471	(864,793)
-	-	-	49,180	-	-	-	-	804,536
-	-	(18,557)	-	-	-	-	-	(268,557)
-	-	(18,557)	49,180	-	-	-	-	535,979
(21,321)	994	-	49,180	(26,034)	16,337	12,441	37,471	(328,814)
58,602	27,470	200,000	(49,180)	53,101	45,859	39,630	136,293	4,657,384
\$ 37,281	\$ 28,464	\$ 200,000	\$ -	\$ 27,067	\$ 62,196	\$ 52,071	\$ 173,764	\$ 4,328,570

City of New Baltimore, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2008

	Equipment	Department of Public Service	Total
Current Assets			
Cash and cash equivalents	\$ 523,180	\$ 693,947	\$ 1,217,127
Investments	-	-	-
Interest receivable	2,206	-	2,206
Customer receivable	-	510	510
Due from other governmental units	-	-	-
Due from other funds	-	13,200	13,200
Inventories	-	43,456	43,456
Total current assets	525,386	751,113	1,276,499
Noncurrent Assets - Capital assets	527,108	246,332	773,440
Total assets	1,052,494	997,445	2,049,939
Current Liabilities			
Accounts payable	37,270	7,821	45,091
Accrued and other liabilities	2,695	27,884	30,579
Total current liabilities	39,965	35,705	75,670
Noncurrent Liabilities - Accrued compensated absences	4,200	41,481	45,681
Total liabilities	44,165	77,186	121,351
Net Assets			
Invested in capital assets	527,108	246,332	773,440
Unrestricted	481,221	673,927	1,155,148
Total net assets	<u>\$ 1,008,329</u>	<u>\$ 920,259</u>	<u>\$ 1,928,588</u>

City of New Baltimore, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets - Internal Service Funds Year Ended June 30, 2008

	Equipment	Department of Public Service	Total
Operating Revenues			
Charges for services	\$ 456,592	\$ 1,066,111	\$ 1,522,703
Contributions	-	-	-
Other	-	3,642	3,642
Total operating revenues	456,592	1,069,753	1,526,345
Operating Expenses			
Services	249,704	967,554	1,217,258
Depreciation	73,167	12,075	85,242
Total operating expenses	322,871	979,629	1,302,500
Operating Income	133,721	90,124	223,845
Nonoperating Revenue - Interest income	24,286	10,039	34,325
Net Income	158,007	100,163	258,170
Transfers In	-	249,204	249,204
Change in Net Assets	158,007	349,367	507,374
Net Assets - Beginning of year	850,322	570,892	1,421,214
Net Assets - End of year	<u>\$ 1,008,329</u>	<u>\$ 920,259</u>	<u>\$ 1,928,588</u>

City of New Baltimore, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2008

	Equipment	Department of Public Service	Total
Cash Flows from Operating Activities			
Receipts from interfund services	\$ 456,592	\$ 1,045,423	\$ 1,502,015
Payments to suppliers	(74,100)	(171,646)	(245,746)
Payments to employees	(137,162)	(785,222)	(922,384)
Other receipts	-	3,642	3,642
Net cash provided by operating activities	245,330	92,197	337,527
Cash Flows from Noncapital Financing Activities - Transfers from other funds	-	249,204	249,204
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets	(256,738)	-	(256,738)
Cash Flows from Investing Activities - Interest received on investments	24,421	10,039	34,460
Net Increase in Cash and Cash Equivalents	13,013	351,440	364,453
Cash and Cash Equivalents - Beginning of year	510,167	342,507	852,674
Cash and Cash Equivalents - End of year	<u>\$ 523,180</u>	<u>\$ 693,947</u>	<u>\$ 1,217,127</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 133,721	\$ 90,124	\$ 223,845
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	73,167	12,075	85,242
Changes in assets and liabilities:			
Receivables	-	(510)	(510)
Due from other governmental units	-	(6,978)	(6,978)
Due from other funds	-	(13,200)	(13,200)
Inventories	-	(19,474)	(19,474)
Prepaid costs and other assets	1,668	13,084	14,752
Accounts payable	34,595	(3,797)	30,798
Accrued and other liabilities	2,179	20,873	23,052
Net cash provided by operating activities	<u>\$ 245,330</u>	<u>\$ 92,197</u>	<u>\$ 337,527</u>

City of New Baltimore, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2008

	Pension Trust Funds			Agency Fund
	Retiree Health			
	Care	Pension	Total	Tax Collections
Current Assets				
Cash and cash equivalents	\$ 56,632	\$ 53,609	\$ 110,241	\$ 2,957
Investments	993,059	7,992,193	8,985,252	-
Due from other governmental units	328	-	328	-
Due from other funds	-	-	-	-
Inventories	-	-	-	-
Total assets	1,050,019	8,045,802	9,095,821	<u>\$ 2,957</u>
Liabilities				
Accounts payable	-	-	-	\$ 2,371
Due to other governmental units	-	-	-	586
Total liabilities	-	-	-	<u>\$ 2,957</u>
Net Assets Held in Trust for Pension and Other Employee Benefits	<u>\$ 1,050,019</u>	<u>\$ 8,045,802</u>	<u>\$ 9,095,821</u>	

City of New Baltimore, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Assets Fiduciary Funds Year Ended June 30, 2008

	Pension Trust Funds		
	Retiree Health		
	Care	Pension	Total
Additions			
Investment income (loss):			
Interest and dividends	\$ 55,766	\$ -	\$ 55,766
Net decrease in fair value of investments	(81,940)	(176,860)	(258,800)
Net investment loss	(26,174)	(176,860)	(203,034)
Contributions:			
Employer	374,519	511,680	886,199
Employee	12,203	148,379	160,582
Total contributions	386,722	660,059	1,046,781
Total additions - Net of investment loss	360,548	483,199	843,747
Deductions			
General and administrative	61,312	4,566	65,878
Benefit payments	-	239,328	239,328
Total deductions	61,312	243,894	305,206
Net Increase in Net Assets Held in Trust	299,236	239,305	538,541
Net Assets Held in Trust for Pension and Other Employee Benefits			
Beginning of year	750,783	7,806,497	8,557,280
End of year	<u>\$ 1,050,019</u>	<u>\$ 8,045,802</u>	<u>\$ 9,095,821</u>

CITY OF NEW BALTIMORE
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2008

CITY OF NEW BALTIMORE

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and the City Council
City of New Baltimore, Michigan

We have audited the general-purpose financial statements of the City of New Baltimore, Michigan as of and for the year ended June 30, 2008 and have issued our report thereon dated November 12, 2008. Those general purpose financial statements are the responsibility of the management of the City of New Baltimore, Michigan. Our responsibility was to express an opinion on those general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements of the City of New Baltimore, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the general-purpose financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Alan C. Young & Assoc.

November 12, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ONCOMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and the City Council
City of New Baltimore, Michigan

We have audited the financial statements of the City of New Baltimore, Michigan as of and for the year ended June 30, 2008 and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of New Baltimore, Michigan's internal control over financial reporting as a basis for designating our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of New Baltimore's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of New Baltimore's internal control over financing.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing
Standards (Continued)

Internal Control over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The management of the City of New Baltimore, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the management's response and accordingly, we express no opinion on it.

Compliance

As part of obtaining reasonable assurance about whether the City of New Baltimore's financial statements are free of material misstatement, we performed tests of the City of New Baltimore's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, our objective was not to provide an opinion on overall compliance with such provisions and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The report is intended solely for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young; Assoc.

November 12, 2008

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**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and the City Council
City of New Baltimore, Michigan

Compliance

We have audited the compliance of the City of New Baltimore, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of New Baltimore, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of New Baltimore, Michigan's management. Our responsibility is to express an opinion on the City of New Baltimore, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of New Baltimore, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of New Baltimore, Michigan's compliance with those requirements. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 08-1.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of New Baltimore, Michigan did comply, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Report Letter on Compliance with Laws and Regulations applicable
to each Major Program and Internal Control over Compliance
in accordance With OMB Circular A-133
(Continued)

Internal Control over Compliance

The management of the City of New Baltimore, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulation, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of New Baltimore, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of New Baltimore, Michigan's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

The management of the City of New Baltimore, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the management's response and accordingly, we express no opinion on it.

This report is intended solely for the information of City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan L. Young, Assoc.
November 12, 2008

**CITY OF NEW BALTIMORE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Federal Agency/Pass-through Agency Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Project/Grant Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency			
Passed through the Michigan Department of Environmental Quality			
Capitalization Grants for State Revolving Funds	66.458	5276-041	\$1,444,705
			<hr/>
Total U.S. Department of Environmental Protection Agency			1,444,705
Total Federal Expenditures			<hr/> <hr/> \$1,444,705

See Notes to Schedule of Expenditures of Federal Awards

**CITY OF NEW BALTIMORE
RECONCILIATION OF GENERAL PURPOSE FINANCIAL STATEMENT FEDERAL
REVENUE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Federal revenue per basic financial statements	
General Fund	\$2,304
Waste Water Fund	<u>9,091,915</u>
Total federal revenue reported in the basic financial statements	<u>9,094,219</u>
 Less prior year deferred revenue, net of amounts deferred due to being received in advance of spending	 (2,304)
 Less Non-federal portion of State Revolving Fund Grant	 (7,647,210)
 Federal expenditures per the schedule of expenditures of federal awards	 <u><u>\$1,444,705</u></u>

**CITY OF NEW BALTIMORE
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

NOTE A - SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards presents the activity of federal award programs of the City of New Baltimore.

Basis of Accounting

The accompanying schedule of expenditures of Federal Awards includes the federal grant activity of the City of New Baltimore and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit organizations*.

**CITY OF NEW BALTIMORE
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant Deficiency (ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ No
- Non-Compliance material to financial Statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant Deficiency (ies) identified that are not considered to be material weakness? ☐ Yes ☒ No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
66.458	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low risk auditee? ☒ Yes ☐ No

**CITY OF NEW BALTIMORE
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008
(Continued)**

CURRENT YEAR FINDINGS

Section II – Financial Statement Audit Findings

None

**CITY OF NEW BALTIMORE
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008
(Continued)**

Section III – Federal Program Audit Findings

Reference
Number

Findings

08-1

Program Name – Capitalization Grants for State Revolving Funds, EPA Grant; CFDA # 66.458.

Finding Type –Material Noncompliance

Criteria- A grant agreement between the City of New Baltimore and the U.S. Department of Environmental Protection Agency requires the City of New Baltimore to ensure that the contractors engaged by it are not debarred, suspended or ineligible for participation in federal grant projects.

Condition – For 1 out of 4 samples selected for test work, the City did not obtain certification to verify whether the contractor was debarred/suspended by the federal awarding agency.

Questioned Costs – None

Cause/Effect – The City could have utilized a contractor that was debarred/suspended or ineligible from participation in federal grant projects.

Recommendation - We recommend that the City of New Baltimore follow proper procurement procedures to ensure that the contractors engaged are not debarred, suspended or ineligible from federal program participation.

View of responsible officials – The City incorporates the provision for submitting this certification into contract language, and performs queries on the federally-maintained Excluded Parties List website. Henceforth, the Purchasing Agent and City Attorney will formulate and finalize a document to be acknowledged and signed by all contractors awarded City contracts which attests to the nonexistence of federal debarment/suspension/ineligibility, and which will be maintained on record in the vendor's file in the Purchasing Agent's office. Additionally, documentation will be printed off the Excluded Parties List website, also to be maintained on file in the Purchasing Agent's office (and vendor's file in the Federal Programs Office) in support of the absence of these conditions at time of engagement.

**CITY OF NEW BALTIMORE
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2008
(Continued)**

PRIOR YEAR FINDINGS

Section II – Financial Statement Audit Findings

NONE

Section III – Federal Program Audit Findings

NONE

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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November 12, 2008

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of New Baltimore, Michigan (the City) for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 17, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered City of New Baltimore, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City of New Baltimore, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City of New Baltimore, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on City of New Baltimore, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of New Baltimore, Michigan's compliance with those requirements.

SIGNIFICANT AUDIT FINDINGS

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the city are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

New Accounting pronouncements to be implemented in future years include the following:

- GASB 45 – Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions – Applicable FY2008-2009

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was

- Management's estimate of the allowance for uncollectible accounts. We evaluated the key factors and assumptions used to develop the allowance for uncollectible in determining that it is reasonable in relation to the financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We are pleased to report that none of the misstatements detected as a result of audit procedures.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

FRAUD AND ILLEGAL ACTS

In accordance with Government Auditing Standards, auditors are required to determine if audit committees are adequately informed of any fraud, abuse, or illegal acts that come to the auditor's attention, unless the matter is clearly inconsequential. While performing our audit procedures related to the year ended June 30, 2008, no matters have come to our attention that would require disclosure to you.

INDEPENDENCE

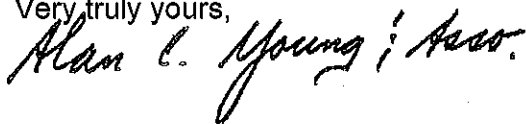
Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationship between our firm and the city and provide confirmation that we are independent accountants with respect to the Agency. We are not aware of any independence related relationships between our firm and the city.

CONFIRMATION OF AUDIT INDEPENDENCE

We hereby confirm that as of November 12, 2008, we are independent accountants with respect to the Agency under all relevant professional and regulatory standards.

This information is intended solely for the use of management of the City of New Baltimore, Michigan.

Very truly yours,

A handwritten signature in cursive script that reads "Alan C. Young & Assoc.".

Alan C. Young & Associates, P.C.